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SUBJECT: GOT LOWERS PRIMARY SURPLUS TARGET FOR 2008

¶1. (SBU) Summary: The GOT submitted the 2008 budget on October 17, the statutory deadline. At an October 18 press conference, Finance Minister Kemal Unakitan announced the GOT expects a budget deficit

of YTL 17.8 billion ($14.8 billion). The Minister also announced a program-defined primary surplus target of 5.5 percent, which is lower than the 2007 stand-by target of 6.5 percent. (Note: an IMF Review Team is in Turkey now for its semi-annual review. End note.) The Minister indicated that the GOT and Fund have not yet reached a consensus on the primary surplus target during review discussions, which are slated to continue next week.

¶2. (SBU) The Minister announced a GNP target of YTL 716.6 billion ($520.2 billion), and a growth rate of 5.5 percent, with a 4 percent end-of-year inflation (CPI) target. Unakitan announced with pride that the Turkish economy had grown for 22 consecutive quarters. Analyst reactions to the 2008 budget have been calm, however the 2008 budget's optimistic assumption of crude oil at $71.2 per barrel, detracts from what otherwise indicates fiscal tightening over 2007 performance, where Turkey will miss its primary fiscal target by two percent of GNP. End Summary.

¶3. (U) The GOT presented the 2008 budget to the Parliament as scheduled on October 17, and Unakitan held a press conference October 18 to disclose the details. As hinted at by Prime Minister Erdogan last week, for 2008 the GOT cut the primary surplus target to 5.5 percent of GNP. A 6.5 percent primary surplus target has been the anchor of Turkey's reform program since the collapse of the crawling peg exchange rate regime in 2001.

¶4. (U) The 2008 budget assumes spending of YTL 221.3 billion ($184.4 billion), up 9.6 percent from 2007. Expenditures in 2008 will increase 8.1 percent, and the GOT expects to collect YTL 204.6 billion ($170.5 billion) in revenues, up 8.8 percent from 2007, leaving a deficit of YTL 17.8 billion ($14.8 billion). This would be 2.5 percent of GNP and 19.3 percent higher than the deficit for
¶2007. The plan is to run a nominal primary surplus of YTL 38.2 billion ($31.8 billion) up 12.1 percent from 2007.

¶5. (U) The GOT forecasts 2008 GNP at YTL 716.6 billion ($597.2 billion) with a 5.5 percent growth rate target for 2008, and end-of-year inflation at 4 percent. Per-capita income for 2008 is estimated at $7,000. (Note: The GOT estimated end-of-year CPI at 6.5 percent in 2007 with per-capita income at $5,741. GNP for 2007 was estimated at YTL 646.9 billion ($489 billion). End note.) The GOT foresees 2008 exports of $117 billion and imports of $182 billion. The GOT assumes an average USD/YTL exchange rate of 1.37 in 2008. The GOT also expects a 13.3 percent increase in 2008 tax revenues overall. Corporate income tax will rise 10.9 percent and personal income tax will rise 10 percent. The Minister announced an average inflation-adjusted 7.6 percent hike in civil servant wages for 2008.

¶6. (SBU) Comment: While a drop in the primary surplus-to-GNP ratio

target for 2008 may look disappointing, the Finance Minister noted that fiscal discipline and structural reforms remain the main anchors of the AKP's economic policy. Some leading economic analysts stated that as long as fiscal discipline is preserved, the one percentage point drop is not that important for the market. Erdal Saglam, a prominent economic columnist, said the GOT's 2008 budget undermines the anti-inflation program and places more emphasis on growth. However, given a relatively "loose" fiscal stance in 2007 with a 4.5 percent primary surplus foreseen, a 5.5 percent primary surplus for 2008 would imply a plan for fiscal tightening in 2008.

¶7. (SBU) One cautionary note: the GOT assumed a price of $71.2 per barrel of crude oil in the budget calculations. Given Turkey's heavily hydrocarbon-dependent economy and the current market circumstances, it looks like the GOT may have under calculated its expenditures and cost of imports on energy to present what otherwise looks like an improvement of its 2007 budget performance, where the GOT is likely to miss its primary surplus target by at least two percentage points of GNP. End Comment.

WILSON